

Message Text

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SUBJECT: FINANCIAL ISSUES IN EC RENEGOTIATIONS

REF: LONDON 16677

1. SUMMARY: AMONG THE ISSUES IN THE FINANCIAL FILED, THE UK FACES DIFFICULT NEGOTIATIONS IN CONNECTION WITH ITS EC BUDGETARY CONTRIBUTIONS. NEVERTHELESS, COMMUNITY OFFICIALS DEALING WITH THE BUDGET BELIEVE A COMPROMISE CAN BE WORKED OUT, PROBABLY AT THE DUBLIN SUMMIT MEETING, WHICH MAY TAKE PLACE IN MARCH. THEY ALSO BELIEVE THAT THE UK SHOULD HAVE NO MAJOR PROBLEM IN ACNIEVING ITS OBJECTIVES REGARDING THE HARMONIZATION OF THE VALUE ADDED TAX (VAT) AND THE LIBERALIZATION OF CAPITAL MOVEMENTS. END SUMMARY.

2. DESPITE THE COMPROMISE WORKED OUT IN PRINCIPLE AT THE PARIS SUMMIT, THE SPECIFICS OF ADJUSTMENT OF BRITISH CONTRIBUTIONS TO THE EC BUDGET CONTINUE TO BE ONE OF THE THORNIEST OF THE RENEGOTIATIONS ISSUES. THE PARIS COMMUNIQUE IS IMPRECISE AND INCORPORATES CONFLICTING VIEWS. MEMBER STATES, FOR EXAMPLE, DISAGREE ON WHAT IS MEANT BY A
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"CORRECTING MECHANISM" AND "UNACCEPTABLE SITUATION". THE

COMMISSION PLANS TO SUBMIT TO THE EC COUNCIL BY THE END OF THIS MONTH A PAPER PROPOSING VARIOUS OPTIONS THAT MIGHT BE USED TO RESOLVE THESE ISSUES. THIS PAPER IS LIKELY TO BE TAKEN UP BY THE COUNCIL AT ITS FEBRUARY 10-11 AND MARCH 3-4 MEETINGS. COMMISSION OFFICIALS BELIEVE, HOWEVER, THAT HEADS OF GOVERNMENT WILL ULTIMATELY HAVE TO DECIDE ON THIS ISSUE. CONSEQUENTLY A FINAL DECISION WILL PROBABLY NOT BE REACHED UNTIL THE SUMMIT MEETING IN DUBLIN.

3. OUR SOURCES BELIEVE THE BRITISH WILL NOT EASILY OBTAIN THE OBJECTIVES CITED IN THE REFTEL. MOST MEMBER STATES, WITH FRANCE IN THE LEAD, FAVOR MAINTAINING THE AGREED UPON OBJECTIVE OF FINANCING THE EC BUDGET FROM "OWN RESOURCES." THE UK HAS ALSO STATED THAT IT IS IN FAVOR OF MAINTAINING THE PRINCIPLE OF "OWN RESOURCES". THE DIFFERENCE IS CONSEQUENTLY ONE OF INTERPRETATION. SOME MEMBER STATES INTERPRET "OWN RESOURCES" TO MEAN THAT THE EC RECEIPTS FROM CUSTOMS DUTIES, AGRICULTURAL LEVIES AND EVENTUALLY THE VALUE ADDED TAX (VAT) SHOULD HAVE NO REFERENCE TO THE SOURCE OF THE FUNDS. THUS, ACCORDING TO THIS INTERPRETATION, AN "UNACCEPTABLE SITUATION" WOULD EXIST ONLY SO LONG AS MEMBERS MAKE DIRECT CONTRIBUTIONS TO THE BUDGET. NEVERTHELESS, COMMISSION OFFICIALS DEALING WITH THE BUDGET ISSUE IN THE CABINET OF SOAMES AND CHEYSSON--WHO IS RESPONSIBLE FOR THE BUDGET--EXPECT A COMPROMISE TO BE REACHED AT THE DUBLIN MEETING. THEY HOLD THIS VIEW MAINLY BECAUSE THEY ANTICIPATE THAT OTHER MEMBER STATES WILL BE WILLING TO SHOW SOME MOVEMENT IN THIS FIELD TO ACCOMMODATE THE BRITISH. OUR SOURCES SAY THAT DELAYING THE DECISION CAN ONLY BE HARMFUL. THE DETERIORATING ECONOMIC SITUATION IN THE UK COULD, OVER TIME, DIMINISH THE PROSPECT OF A FAVORABLE REFERENDUM. CONSEQUENTLY THEY EXPECT THOSE IN FAVOR OF CONTINUED UK MEMBERSHIP TO PUSH FOR AGREEMENT ON THE RENEGOTIATION ISSUES AS SOON AS POSSIBLE SO THAT THE REFERENDUM CAN BE HELD AS PRESENTLY SCHEDULED.

4. HARMONIZATION OF THE VAT: COMMISSION OFFICIALS REALIZE THE UK WOULD NOT ACCEPT THE ELIMINATION OF ZERO RATES. THEY HAVE CONSEQUENTLY PROPOSED DEFERRING SUCH ACTION LIMITED OFFICIAL USE

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UNTIL FISCAL FRONTIERS ARE REMOVED. SINCE MEMBER STATES ARE LIKELY TO CONTINUE THEIR NATIONAL VAT SYSTEMS FOR THE FORESEEABLE FUTURE, COMMISSION AND UK OFFICIALS HERE CONCEDE THIS PROPOSAL ESSENTIALLY MEANS THAT THE UK WILL BE ABLE TO MAINTAIN ITS ZERO RATES INDEFINITELY. IN ANY CASE, THE UK HAS THE AUTHORITY TO VETO ANY PROPOSAL AFFECTING ZERO RATES. THUS, UK DELEGATION OFFICERS BELIEVE THIS IS ESSENTIALLY A NON-ISSUE.

5. LIBERALIZATION OF CAPITAL MOVEMENTS (SEE REFTTEL): THE OTHER MEMBER STATES HAVE OUTSTANDING DEROGATIONS CONCERNING THE TREATY'S REQUIREMENTS TO LIBERALIZE CAPITAL MOVEMENTS. AS A RESULT THEY ARE NOT IN A POSITION TO ASK THE UK TO MEET THESE REQUIREMENTS. THE ACCESSION TREATY ALSO PROVIDES SAFEGUARDS DURING TIMES OF BALANCE OF PAYMENTS AND ECONOMIC DIFFICULTIES, WHICH SHOULD ALSO ENABLE THE UK TO AVOID LIBERALIZING ITS CAPITAL MOVEMENTS FOR THE TIME BEING. OFFICIALS CONSEQUENTLY BELIEVE THE UK FACES NO MAJOR OBSTACLES IN OBTAINING ITS OBJECTIVES IN THIS AREA. GREENWALD

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